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## THE NECESSITY FOR GOVERNMENT REGULATION OF PRICES IN WAR TIME

BY CHARLES R. VAN HISE,

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As showing the effect of the war conditions upon prices there are here introduced two tables prepared by the Bureau of Labor Statistics showing the average wholesale prices of twenty-six important commodities and the average retail prices of eighteen foods for the month of July during the years 1914, 1915 and 1916, and for each of the first six months of the year 1917 during which time the advance in prices has been most rapid.

For a number of years, indeed since 1897, there has been a steady upward tendency for prices, the cumulative effect of which was large. However, the outbreak of the war, because of the unsettled commercial conditions, had the immediate effect of generally staying advancing prices and depressing some; and the permanent tendency for rising prices did not fully assert itself until nearly a year later; and, even then, the advances for most commodities were rather small. Notable exceptions to this statement were wheat and flour, the prices of which promptly advanced.

By July, 1915, the upward swing had everywhere established itself, the wholesale prices of nearly all of the commodities listed being higher than in July, 1914, and some of them twice as high. The wholesale prices in June, 1916, as compared with those of 1914 show that the most important commodities were from 50 to 400 per cent higher than in 1914.

For the more important commodities the wholesale prices of June, 1916, as compared with July, 1914, just before the outbreak of the war were roughly as follows:

- Meat animals and meat, 25 to 75 per cent higher;
- Wheat and flour, more than  $2\frac{1}{2}$  times as much;
- Corn and cornmeal, more than double;
- Potatoes, more than  $2\frac{1}{4}$  times as much;
- Sugar, more than double;
- Cotton and cotton yarns, a little less than twofold;

## WHOLESALE PRICES OF IMPORTANT COMMODITIES, JULY, 1914-1916 AND JANUARY-JUNE, 1917

Article	Unit	Actual Prices, July		1916	Average monthly price, 1917					
		1914	1915		January	February	March	April	May	June
Cattle, good to choice steers	100 lbs.	\$9.219	\$9.213	\$9.985	\$10.530	\$11.131	\$11.869	\$12.310	\$12.475	\$12.550
Beef, fresh, native steers	Lb.	.135	.132	.141	.138	.141	.149	.160	.160	.162
Beef, salt, mess	Bbl.	17.250	17.500	18.250	23.250	23.250	24.313	26.250	29.600	30.500
Hogs, heavy	100 lbs.	8.769	7.281	9.825	10.955	12.575	14.794	15.795	16.088	15.706
Bacon, short clear sides	Lb.	.141	.111	.157	.165	.175	.196	.218	.242	.242
Pork, salt, mess	Bbl.	23.625	18.500	27.167	32.250	33.250	35.538	39.000	41.450	41.500
Lard, prime, contract	Lb.	.102	.081	.131	.161	.172	.200	.213	.225	.212
Wheat, No. 1, northern	Bu.	.897	1.390	1.170	1.917	1.808	1.984	2.381	2.981	2.694
Flour, standard patent	Bbl.	4.594	7.031	6.100	9.215	9.069	9.631	11.619	14.880	13.894
Corn, No. 2, mixed	Bu.	.710	.783	.808	.982	1.016	1.123	1.397	1.625	1.716
Meal, fine, yellow	100 lbs.	1.425	1.725	1.900	2.650	2.750	2.750	3.100	3.700	3.900
Potatoes, white	Bu.	1.206	.444	.863	1.795	2.469	2.275	2.669	2.705	2.950
Sugar, granulated	Lb.	.042	.058	.075	.066	.069	.071	.082	.079	.075
Hides, packers'	Lb.	.194	.258	.270	.355	.318	.305	.305	.315	.330
Cotton, upland, middling	Lb.	.131	.092	.130	.176	.163	.186	.203	.208	.255
Cotton, yarn, carded 10/1	Lb.	.215	.160	.253	.340	.320	.310	.360	.365	.375
Wool, fine fleece, scoured	Lb.	.575	.652	.761	1.000	1.087	1.130	1.152	1.304	1.348
Worsted yarn, 2-32s	Lb.	.650	.850	1.100	1.250	1.250	1.270	1.300	1.400	1.550
Coal, bituminous	2,000 lbs.	2.200	2.200	2.200	4.500	5.000	5.000	5.000	6.000	6.000
Copper, electrolytic	Lb.	.134	.199	.265	.295	.330	.363	.340	.310	.325
Pig lead	Lb.	.039	.058	.069	.075	.085	.095	.094	.099	.115
Pig tin	Lb.	.311	.391	.389	.430	.490	.515	.543	.585	.630
Pig iron, Bessemer	2,240 lbs.	14.900	14.950	21.950	35.950	37.700	37.700	42.200	45.150	54.700
Steel billets	2,240 lbs.	19.000	21.380	41.000	63.000	65.000	66.250	73.750	86.000	98.750
Spelter	Lb.	.051	.220	.113	.098	.099	.109	.108	.095	.096
Petroleum, crude	Bbl.	1.750	1.350	2.600	2.850	3.050	3.050	3.050	3.100	3.100

AVERAGE RETAIL PRICES OF THE PRINCIPAL ARTICLES OF FOOD IN THE UNITED STATES, JULY, 1914-1916 AND JANUARY-JUNE, 1917												
Article	Unit	1914	July 1915	1916	1917						May 1917	June 1917
					January 1917	February 1917	March 1917	April 1917				
Sirloin steak	Lb.	\$0.270	\$0.265	\$0.287	\$0.276	\$0.287	\$0.295	\$0.317	\$0.322	\$0.322	\$0.322	\$0.328
Round steak	Lb.	.245	.240	.260	.247	.260	.267	.289	.296	.296	.296	.301
Rib roast	Lb.	.208	.206	.220	.216	.225	.233	.252	.257	.257	.257	.261
Chuck roast	Lb.	.175	.167	.179	.174	.186	.193	.212	.218	.218	.218	.222
Plate beef	Lb.	.127	.123	.132	.132	.141	.146	.161	.166	.166	.166	.170
Pork chops	Lb.	.222	.211	.234	.236	.261	.279	.306	.306	.306	.306	.309
Bacon	Lb.	.273	.270	.290	.296	.307	.333	.382	.416	.416	.416	.425
Ham	Lb.	.279	.265	.323	.306	.318	.338	.365	.388	.388	.388	.391
Lard	Lb.	.154	.145	.208	.214	.219	.238	.264	.278	.278	.278	.280
Hens	Lb.	.219	.208	.241	.255	.267	.276	.290	.293	.293	.293	.288
Eggs	Doz.	.300	.278	.319	.544	.506	.349	.386	.398	.398	.398	.409
Butter	Lb.	.343	.343	.355	.453	.469	.461	.508	.465	.465	.465	.469
Milk	Qt.	.088	.087	.088	.099	.100	.100	.102	.105	.105	.105	.106
Bread	16 oz. loaf*	.055	.263	.062	.070	.071	.072	.075	.085	.085	.085	.085
Flour	‡ bbl bag	.787	1.003	.927	1.369	1.369	1.401	1.649	2.134	2.134	2.134	1.973
Cornmeal	Lb.	.031	.033	.033	.040	.041	.041	.047	.054	.054	.054	.055
Potatoes	Peck	.405	.223	.352	.587	.761	.778	.887	.919	.919	.919	.960
Sugar	Lb.	.052	.070	.087	.080	.081	.087	.096	.100	.100	.100	.093

\* 16 oz., weight of dough.

Wool and worsted, more than twofold;  
 Bituminous coal, more than  $2\frac{1}{2}$  times as much;  
 Copper, more than  $2\frac{1}{2}$  times as much;  
 Pig lead, nearly fourfold;  
 Pig iron, more than threefold;  
 Steel billets, more than fourfold;  
 Spelter, nearly double;  
 Petroleum, almost double.

Retail prices of the foods given in the second table show advances corresponding to the wholesale rates.

The facts presented show that for the essential commodities of food and clothing, coal and the metals and their manufactured products, the prices have greatly advanced during the past two years, and the prices given for June, 1917 are not maximum prices. Since that month prices have continued to advance. This is illustrated by the price for cotton and hogs, which since that time have made record prices.

In order to gauge the changes during the past year there are here inserted the prices of some of the more important commodities for August 1, 1917, as compared with August 1, 1916:

<i>Crop</i>		<i>1916</i>	<i>1917</i>
		<i>in cents</i>	<i>in cents</i>
Wheat	Per bushel	107.1	228.9
Corn	Per bushel	79.4	196.6
Barley	Per bushel	59.3	114.5
Rye	Per bushel	83.4	178.1
White potatoes	Per bushel	95.4	170.8
Cotton	Per pound	12.6	24.3

For each of these important commodities the prices within the year, with the single exception of white potatoes, have more than doubled. These are indeed amazing advances in prices. The advances must not only stop, but there must be recession in the prices of necessities to reasonable amounts.

The unexampled prices of all commodities have placed a heavy burden upon the consumer and especially the consumers who are on a monthly salary or a day wage, and these constitute the great proportion of the population. It is true that there have been advances in wages, in some cases several advances, but these together seldom amount to more than 25 or at most 50 per cent; and therefore they are not at all in proportion to the increased

cost of living. Since the exaggerated prices have imposed hardship upon all people of moderate means, the situation has aroused general alarm. Serious trouble is likely to confront us the coming winter unless relief is obtained. If the war is to be won, economic conditions must be made such that those who have a small income will be treated justly.

### THE CAUSES OF MOUNTING PRICES

One fundamental cause of the mounting prices is the unusual and extraordinary demand from abroad for all essential commodities. However, this has only been one factor in the process.

When it was once appreciated that there was a relative shortage of the essential commodities, the home purchasers, instead of buying ordinary amounts, purchased in advance of their needs. Thus the family, instead of buying flour by the sack bought a number of barrels. The same is true in regard to sugar. Similarly during the spring and summer of 1917, when it was appreciated that there was a shortage in coal, many manufacturers were trying to protect their businesses by accumulating reserves to carry them through the winter. The same was true of those who desired coal for heat. The consequence was that the demand of purchasers was far beyond what would have been necessary to meet actual needs had the ordinary procedure been followed. This frenzy of excessive buying has greatly aggravated the situation.

Another most important cause of the enhancing prices was that a time when there is great demand is especially advantageous for speculators to accumulate great stores of goods of various kinds and hold them for advances in prices. This was done on a great scale throughout the country for every essential commodity.

In the space allowed it is not practicable to summarize and discuss the measures which the government has taken to control prices and profits. The most important of these measures is the so-called Food Production Act, which gives very large powers in regard to control of prices, not only for all foods but for fuel. This law is supplemented by other laws. The enforcement of the Food Production law has been placed in the hands of food and fuel administrators, and also the principles which have been applied in regard to the control of prices of food and fuel have been extended by agreement to other important commodities, notably steel and

iron. In short, under war conditions, we have abandoned the principles that the laws of supply and demand and competition are adequate to the control prices of commodities, and we are depending primarily upon governmental regulation.

Finally, when the conditions are as above, it is especially easy for those in a given line of business at a particular locality to cooperate to push prices upward and thus greatly increase the profits of their business. This also was done on a vast scale for many commodities.

Based upon the first factor, the second, third, and fourth factors have come in each with reinforcing power to accelerate prices. The tendencies above described, once started, are cumulative; and the enhancement of prices goes on with increasing velocity. The prices of foods are advanced; the employes must have higher pay because of the increased cost of food; the raw materials for manufactured articles are advanced; the manufacturer charges a higher price for his articles because he must pay more for his labor and an increased price for his raw materials. At each stage the advance of prices is made more than sufficient to cover the additional cost. The cycle thus completed is begun again with food, and the circle once more gone around. The second cycle completed, the conditions are right for a third cycle, and so on indefinitely with the result that prices have been and still are rising beyond all reason, like a spiral ascending to the sky.

#### FAILURE OF LAW OF SUPPLY AND DEMAND AND COMPETITION

The facts which have been presented show that the law of supply and demand and competition adequately to control prices has broken down, for the simple reason that for every staple commodity the demand is greater than the supply. In normal years before the war the potential capacity of the United States for almost every essential commodity was greater than the home demand. The agricultural lands were developed so as to produce a large surplus, all that could be marketed at home and abroad at a reasonable price. The coal mines were so developed that they could produce many million tons more than the market demanded. Steel and iron mills similarly were developed so as to meet not only the ordinary demand, but to respond quickly to exceptional demands. Under these circumstances the prices, if not

adequately controlled, had been largely controlled by supply and demand, except where there had been coöperation of purchasers or manipulators or both, to control the market.

### THE EXCESS DEMAND

The situation was wholly changed by the world war. For every important commodity the demand exceeds the supply. For the staple foods the demand is greater than any possible supply. For coal the demand exceeds the capacity for delivery. For steel the demand is far beyond the capacity of all mills.

It is not possible to give average percentages of the extent to which the demand exceeds the supply; but it is safe to say that the percentage upon the average would not be large, probably not more than 20 per cent, and for scarcely any commodity more than 30 or 40 per cent. However, this moderate excess demand of say 20 per cent, taken in connection with buying in advance of needs, of forestalling by speculators and combinations to control the market, has been sufficient to increase the prices of many essential commodities by 100, 200, 300, and even 400 per cent, and for certain articles by greater amounts. There is no reason to suppose that the excess demand will decrease in the near future; indeed it is probable that for the coming year it will increase.

Notwithstanding the extraordinary efforts to increase production which our entrance in the war has created, vast new requirements for war equipment of all kinds, including foods, textiles, leather, metals for guns, munitions, etc., have kept the demand beyond the supply. At the same time this demand is created, there are taken from active production in this country more than a million men.

The allies probably have 20,000,000 men in the field and 20,000,000 more that are directly connected with producing munitions and materials for war consumption. Fertilizers have been lacking. In consequence of these facts and despite the most earnest and successful efforts of the British and French to greatly increase their acreage crops, especially wheat, their crops are certainly wholly inadequate to feed the people of these countries; for under normal conditions, hundreds of millions of bushels of grain and vast quantities of meats have been imported from the United States by England and France and smaller amounts by Italy.



## THE NECESSITIES OF THE ALLIES MUST BE MET

It is just as imperative that we furnish the allies with the necessary foods, munitions and railroad equipment, as it is that we supply our own armies. Their armies are doing precisely the work that the United States Army is doing, only on a vastly larger scale. The sacrifices of the British, French and Italians have been immeasurably greater than our own; therefore it is but a small thing to insure their securing the commodities that are essential to carry the war to a successful conclusion.

## ENORMOUS EXCESS PROFITS

Under the conditions described above, it is inevitable that the profits of the great corporations dealing in the essential commodities should be excessive. There has been nothing comparable to the profits of the present war in the history of civilization. In the United States, the most exploitive profiteering of the days of the Civil War was trivial as compared with the enormous sums which have been obtained during the present war by the great corporations dealing in the essential commodities.

By "excess profits" is meant the amount which the profits of the war times exceed those of normal times before the war.

*Cereals.* There are no available figures showing the amount of the excess profits for those producing and handling the cereals for the war period as compared with the conditions before the war. To obtain accurate figures in this matter is exceedingly difficult because the profits are distributed among the producers of grain, dealers, millers, jobbers and retailers. Mr. Herbert Hoover in a statement before the Senate committee on agriculture, June 19, 1917, stated that "in the last five months on the item of flour alone \$250,000,000 has been extracted from the American consumer in excess of the normal profits of manufacturers and distributors." If this statement is correct, the total excess profits made upon the grains during the last year must amount to more than a billion dollars and may have reached two billion dollars.

*Meats.* According to figures presented by one of the treasury experts to the finance committee of the Senate, the profits of 1916, as compared with 1914 and the excess profits of four big packing companies of Chicago were as follows:

<i>Corporation</i>	<i>1914</i>	<i>1916</i>	<i>Amounts of increase of war profits</i>
Armour and Company	\$7,509,908	\$20,100,000	\$12,590,092
Swift and Company	9,450,000	20,465,000	11,015,000
Morris and Company	2,205,672	3,832,213	1,626,541
Wilson and Company	1,511,528*	4,913,873	3,402,345
	<hr/>	<hr/>	<hr/>
	\$20,677,108	\$49,311,086	\$28,633,978

It should be understood, however, that the excess profits of \$28,633,978 are not exclusively from meats, for the reason that these packing companies are engaged in allied industries and an unknown portion of them are from other sources than meat.

*Metals.* In regard to the excess profits in metals, Senator Simmons on August 10, 1917, presented to the Senate figures compiled by J. P. Morgan and Company showing the excess profits for 1916 as compared with 1914 of some of the larger metal manufactures as follows:

United States Steel Corporation	\$207,945,000
Bethlehem Steel Company	53,715,000
Anaconda Copper Mining Company	39,087,000
General Electric Company	6,523,000
American Smelting and Refining Co.	11,158,000
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Total for the five corporations	\$318,428,000

*Petroleum.* In regard to the excess profits of petroleum, these for 1916 are stated, on the same authority, to be for the Standard Oil Company of New York \$20,425,000.

*Manufactured Commodities.* The excess profits of manufactured products other than the metals have been similarly large. From the same authority the excess profits of the duPont Powder Company for 1916 are placed at \$76,581,000; for the Corn Products Company at \$3,798,000; and for the United States Rubber Company at \$4,537,000.

*Forty-eight Corporations.* It is also stated that the excess profits of forty-eight corporations which include the above mentioned with others for 1916 as compared with 1914 amounted to \$659,858,490.

*Coal.* No figures are available which will show the excess profits of the miners of coal for 1916 and 1917 as compared with

\*15 months.

years antecedent to the war. However, the enhancement of prices from two to fourfold makes it certain that these profits for the entire United States in the fiscal year 1916-1917 amounted to hundreds of millions of dollars, possibly to a billion dollars or more.

*Transportation.* The general increase in profits has also been shared by transportation. Senator Simmons in the report mentioned gives the excess profits of the Pennsylvania Railway Company for 1916 as compared with 1914 as \$11,741,000, and for the "Big Four," \$5,843,000.

*Wood.* The foregoing statements have not included the wood industries but if they had been included, we should have had similar facts in regard to the enormous increase in production, increased exportation and greatly enhanced prices for the wood products; indeed the enhancement of prices has been so great in the case of paper and the situation so acute, that the Federal Trade Commission has stated that the production of paper, both for print and book, "is vested with a public interest."

The Federal Trade Commission in a letter dated June 13, 1917 to the president of the Senate, recommended governmental control of the production of print and book paper. The letter stated if in 1917 the same tonnage is produced as in 1916 at the price prevailing in June, the 1917 output would cost \$105,000,000 whereas the cost of this amount in 1916 was \$70,000,000. It said further that at least 50 per cent of this increase of \$35,000,000 would be excess profits over those of 1916, the prices for print and book paper being from 65 to 84 per cent higher than in 1915. The average profits of forty-one of the book making paper mills for 1916 were 100 per cent more than for the previous year.

The situation was regarded as so serious that the commission recommended as a war emergency measure that all mills and agencies in the United States producing and distributing print paper and mechanical and chemical pulp be operated by the government through suitable agencies, and that the products be equitably distributed at fair prices. It was also recommended that because so much of the newspaper print paper comes from Canada to the United States that the government of Canada be asked to create agencies to act jointly with similar agencies from the United States for the protection of consumers; and that in case the Canadian government would not join in the enterprise that the exportation of

paper and paper material into the United States should be made only on government account through the federal agency recommended by the commission.

*Other Industries.* A full discussion of the industrial situation would show advances in prices and increased war profits in the production of scores of finished commodities other than those already considered, whether the material be foods, meats, metals or wood, or some combination of one or more of these.

#### CONCLUSION REGARDING EXCESS PROFITS

The foregoing facts show that war conditions have been taken advantage of by corporations generally throughout the United States to exact excessive profits. Indeed in many cases the demands for commodities have been so pressing and the enhanced prices so great as to make the exactions amount to extortion. When prices for essentials are increased two, three or fourfold and result in profits beyond the dreams of any imagination before the war, it cannot be said that the appeal of President Wilson to have men in business and industry on patriotic grounds not to practice profiteering has led to any substantial results. Nor can it reasonably be expected that such an appeal would have been successful. When all lines of business are following the same practice, it cannot be expected that one corporation or one business man shall depart from the practices of the others.

#### FURTHER ATTEMPTS TO CONTROL BY INDICTMENT

As before the war there have been attempts to prevent co-operation and thus control prices and profits through prosecution under the Sherman Act. Thus on May 24, 1917, by the federal grand jury at Boston eighty-eight dealers were indicted for violating the anti-trust law to control the entire crop of onions to enhance the prices of that product. On June 2 the federal grand jury at Chicago brought indictment against twenty-five individuals and firms acting on the Chicago Butter and Egg Board, who were charged with manipulating the markets to increase the price of eggs. In New York it was announced June 19, that fifty-one coal operators and one hundred and two corporations were put on trial before the United States district court for violating the Sherman Anti-trust Act by combining to increase and fix the price of certain coals. Other indictments have been made along the same line.

Some of the prosecutions, notably that relating to coal, have been abandoned; others have been continued. However, whether the prosecutions are few or more, are abandoned or continued, they have been utterly futile to prevent general coöperation to control the market and thus enhance prices for all essential commodities. The failure in these respects has been just as complete as was failure along similar lines before the world war.

The facts presented in the foregoing pages demonstrate beyond doubt that we cannot rely upon the laws of supply and demand and competition to meet the situation under war conditions. The only possible way in which prices and profits can be reduced to reasonable amounts is by governmental action.

## FOOD PRICES VS. WAGE INCREASES

### A STUDY AS TO THE TREND OF REAL WAGES IN PHILADELPHIA

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#### EDITOR'S NOTE

Immediately after the food riots in the streets of Philadelphia last winter, Mayor Smith appointed a Food Inquiry Committee to investigate the situation. One of the many problems that presented itself to this committee was the determination of the trend in food prices as compared with the trend in wages to ascertain whether there were substantial reasons for discontent. Mr. Raymond T. Bye was asked to undertake a study of the trend of food prices and Dr. Charles Reitell a similar study of the trend in wages. With the consent of the city authorities the Editor has secured the results of these two investigations for publication in *THE ANNALS*. The two articles which follow thus constitute a joint investigation intended to determine the movement of real wages in Philadelphia over the period from January 1, 1916 to March 10, 1917.